

Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 AGRE-00 DOE-15 SOE-02 DODE-00 PA-02
/136 W

-----093711 112241Z /46

R 111515Z JUL 78
FM AMEMBASSY BERN
TO SECSTATE WASHDC 6559
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL ZURICH POUCH

UNCLAS SECTION 1 OF 2 BERN 3337

USMTN ALSO FOR MISSION
USOECN ALSO FOR EMBASSY
PASS TREAS AND FRB
EO 11652: N/A
TAGS: EFIN, SZ
SUBJ: SWISS FINANCIAL REVIEW: WEEK JULY 3 - JULY 7
1. SUMMARY: DOLLAR FELL AGAINST SWISS FRANC AND
PARTIALLY RECOVERED TO CLOSE WEEK AT SF 1.82. GOLD
HIGHER AT 184. SWISS NATIONAL BANK INCREASED MARKET
LIQUIDITY; FOREIGN EXCHANGE HOLDINGS UP. WHOLESALE
PRICES DECLINED; CONSUMER PRICES INCREASED SLIGHTLY.
WATCH EXPORTS EXPANDED. SWISS DIPLOMATS WERE URGED
TO SUPPORT SWITZERLAND'S COMMERCIAL INTERESTS MORE
ACTIVELY. END SUMMARY.
2. FOREX AND GOLD: (A) DOLLAR RATE ERRATIC, REACHING
LOW WEDNESDAY AFTERNOON 179.75. HIGHER OPENING THURS-
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DAY MORNING ATTRIBUTED BY DEALERS TO SUPPORT FROM
VARIOUS CENTRAL BANKS, ONLY SLIGHT SUPPORT FROM SNB.
RISING YEN AND SPECULATION ON RESULTS OF BREMEN AND
BONN MEETING ALLEGEDLY MAIN FACTORS. CONTINUED LARGE
US TRADE DEFICIT AND INCREASE IN US INFLATION RATE
ALSO CITED. (B) GOLD REACHED HIGH 185.00 TUESDAY,
FELL THURSDAY TO 182.50 REFLECTING DISAPPOINTMENT IN

GENERAL DEMAND AT IMF AUCTION, AND RECOVERED FRIDAY.

RECORD IMF AUCTION PRICE CAUSED NO SURPRISE.

(C) ANNOUNCEMENT OF REDUCED UNEMPLOYMENT IN GERMANY HELPE

STABILIZE SF/DM RATE. RATES FOLLOW:

	7/3 (OPEN)	7/7 (CLOSE)
SPOT DOLLAR	1.8490	1.8245
FORWARD DISCOUNTS		
(PCT PER ANNUAM)		
1 MONTH	7.33	7.36
2 MONTHS	7.17	7.13
3 MONTHS	7.09	6.81
6 MONTHS	7.09	6.96
12 MONTHS	6.60	6.54
SF/DM	89.19	88.56
GOLD	182.75	183.75

3. CAPITAL AND MONEY MARKETS: (A) ZURICH STOCK MARKET UNSTABLE THROUGHOUT WEEK BUT FEW LARGE MOVEMENTS. WORRY CENTERED ON DROP IN US LEADING INDICATORS AND ON RENEWED STRENGTH OF FRANC WHICH IS EXPECTED TO DELAY EASING OF RESTRICTIONS ON FOREIGN PURCHASES OF SWISS SECURITIES. SKA INDEX CLOSED DOWN 0.7 PCT AT 248.7. FALL OF DOLLAR BELOW SF 1.80 CAUSED NO PANIC SELLING BY SWISS INVESTORS WHO SEE FEW ALTERNATIVES EVEN IN THE US AND GERMAN MARKETS. SWISSAIR BEARER SHARES ACTIVELY TRADED ENDED WEEK DOWN 2.0 PCT UNCLASSIFIED

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AT SF 813 AFTER POOR MAY RESULTS AND PROSPECT OF IATA SANCTIONED LOWER FARES. BANK SHARES ALSO ACTIVE. AVERAGE YIELD CONFEDERATION BONDS UNCHANGED AT 3.39 PCT. THREE-MONTH EURO-FRANC RATE INCREASED 1/8 TO 1-5/5 PCT AND ONE-YEAR TO 2-1/4 PCT. (B) SNB INCREASED LIQUIDITY IN MARKET SUBSTANTIALLY IN WEEK TO ENABLE BENKS TO MEET END-SEMESTER REQUIREMENTS. SNB FOREX HOLDINGS INCREASED SF 1.250 MILLION; NOTES IN CIRCULATION ROSE SF 426 MILLION; GIRO ACCTS UP BY SF 4,002 MILLION. (C) SWISS BANK CORP. BELIEVES DOMESTIC BOND MARKET IN HEALTHY AND SOUND STATE, BUT UNTIL PRESENT REGULATIONS LIFTED, MARKET FOR FOREIGN BONDS WEAK. SBC DOES NOT FIND MANY COMFORTING FACTORS FOR INVESTORS IN EURODOLLAR MARKET, IN SPITE OF HISTORICALLY HIGH DIFFERENCE BETWEEN YIELDS AVAILABLE ON DOLLAR DEPOSITS AND DEPOSITS OF CURRENTLY STRONGER MONEYS; RISE IN PRIME RATE TO 9 PCT HAS NOT HELPED STABILIZE DOLLAR. SBC SAYS FLOATING RATE NOTES MOST INTERESTING INVESTMENT VEHICLE IN CURRENT SITUATION; EXPECTS MIDLAND BANK ISSUE TO BE FOLLOWED BY MANY MORE FRN ISSUES.

4. SNB , (A) END JUNE SNB BALANCE SHEET TOTAL WAS

5 PCT ABOVE END MAY AND 9.7 PCT ABOVE END JUNE 1977.
FOREX HOLD NGS INCREASED 11.3 PCT IN JUNE AND WERE
36.9 PCT ABOVE END JUNE 1977. NOTES IN CIRCULATION
UP 2.1 PCT IN JUNE AND WERE 4.8 PCT ABOVE END JUNE
1977. G RO ACCOUNTS INCREASED 38.6 PCT IN JUNE AND
WERE 0.8 PCT ABOVE END JUNE 1977.

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CHANGE FROM MAY 31
(IN MILLIONS OF SF)

ASSETS

GOLD	11,904	----	----
FOREX	21,200	UP	2,147
ROOSA BONDS	3,045	DOWN	14
DISCOUNTED PAPER	1,133	DOWN	297
LOMBARD LOANS	246	UP	74
OTHER	990	UP	44

LIABILITIES

NOTES IN CI

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LATION	19,980	UP	405
GIRO ACCOUNTS	10,869	UP	3,024
SIGHT DEPOSITS	4,216	UP	295

STERILIZA ORDERS 1,568 DOWN 1,949
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OTHER (INCL GOVT

ACCT) 1,885 UP 53

BALANCE SHEET

TOTAL 38,518 UP 1,829

(B) SNB HAS RENEWED UNCHANGED FOR ONE YEAR TWO
GENTLEMEN'S AGREEMENTS ON EXCHANGE-MARKET OPERATIONS.
AGREEMENTS WHICH RUN TO JUNE 15 AND JUNE 30, 1979
BIND SWISS BANKS NOT TO USE FOREIGN BRANCHES FOR
OPEN SPECULATION A

AINST SWISS FRANC AND TO REPORT

EXCHANGE DEALS EXCEEDING 5 MILLION DOLS.

5. INDICATORS: (A) WHOLESALE PRICE INDEX DECLINED
0.2 PCT IN JUNE; END JUNE INDEX 3.6 PCT BELOW END-
JUNE 1977; DECREASES IN RAW MATERIALS, SEMI-PROCESSED
GOODS AND METALS; INCREASES IN COFFEE, FRUIT,
FISH, PINE, AND RUBBER. (B) CONSUMER PRICES IN-
CREASED 0.2 PCT IN JUNE; END JUNE INDEX 1.1 PCT
ABOVE END-JUNE 1977, BUT ANNUAL RATE OF INCREASE
ESTIMATED AT 1.7 PCT; LARGEST INCREASES IN FRUIT
(UP 15.1 PCT) AND POTATOES (UP 6.0 PCT); DECREASES
IN HEATING OIL (DOWN 4.1 PCT), IMPORTED EGGS
(DOWN 2.2 PCT), AND COFFEE BEANS (DOWN 1.0 PCT).
(C) WATCH INDUSTRY EXPORTS INCREASED 1.8 PCT IN
MAY FROM MAY 1977 TO SF 279.5 MILLION COMPARED TO
OVERALL INCREASE 3.8 PCT. IN FIRST FIVE MONTHS
1978. NUMBER OF PIECES SHIPPED SO FAR 1978 DOWN
4.5 PCT; PIN-LEVER WATCHES DOWN 17.4 PCT, LEVER
WATCHES UP 5.2 PCT, ELECTRONIC WATCHES UP 23.3
PCT.

6. TRADE EXPANSION: AMBASSADOR PETER BETTSCHART,
DELEGATE FOR TRADE AGREEMENTS, TOLD GROUP OF
ASSEMBLED CAREER DIPLOMATS AT EXPORT-PROMOTION
SEMINAR THAT QTE NINETY PERCENT OF THE ACTIVITY
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OF OUR EMBASSIES IN THE THIRD AND FOURTH WORLD
MUST SUPPORT THE INTERESTS OF OUR COMMERCIAL POLI-
CY UNQTE. DUBBED 'MR. NINETY PERCENT', BETTSCHART
SAID DELEGATES FOR TRADE COULD NOT BY THEMSELVES
DO ALL THE NECESSARY FOOTWORK, NOR COULD EXPORT
EFFORTS BE LEFT ENTIRELY IN PRIVATE HANDS. SUGGEST-
IONS INCLUDED: (A) ESTABLISH PERMANENT FLOATING
SWISS EXPO ON A SHIP TRAVELLING FROM COUNTRY TO

COUNTRY; (B) STRENGTHEN TIES TO LOCAL BANKS OVERSEAS WHICH HAVE EXPERTISE USEFUL TO SWISS COMPANIES; AND (C) PROVIDE APPRENTICE TRAINING IN ADVANCED MECHANICAL SKILLS TO LDC WORKERS AT SWISS TRAINING CENTERS WHERE EXCESS CAPACITY EXISTS SUCH AS IN WATCH FEDERATION FACILITIES.

7. AIRPLANE ORDERS: SWIS AIR ANNOUNCED IT HAS SIGNED MEMORANDA OF UNDERSTANDING TO PURCHASE 6 A300-B10 AIRBUSES FOR DELIVERY BY 1983 AND 2 DC-10-30'S FOR DELIVERY IN FEBRUARY AND MARCH 1980. NEW MODEL AIR

BUS SHORTER THAN CURRENT MODEL, WILL SEAT 210 PASSENGERS, AND WILL BE USED ON FLIGHTS TO MIDDLE EAST. AIRLINE WILL SELL ONE DC-8-62 ON DELIVERY OF TWO DC-10'S.

8. OPINION: FINANZ UND WIRTSCHAFT SAYS THE PROSPECT FOR ENLARGED EUROPEAN SNAKE (COBRA?) HAS PRODUCED UNEASINESS AND FEAR OF SWISS ISOLATION. THERE ARE STRONG REASONS TO CREATE A REAL COUNTERWEIGHT TO DOLLAR. RENEWED DOLLAR MALAISE HAS SHOWN SWITZERLAND HAS LIMITED MEANS FOR INFLUENCING PRICE OF FRANC. DOLLAR FALL IN RECENT WEEKS HAS ALMOST COMPLETELY ELIMINATED BEGINNINGS OF RECOVERY IN EXPORT INDUSTRIES TAKING PLACE SINCE FEBRUARY. F W NOTES, HOWEVER, THAT OFFICIALS STILL FORECASTING IMPROVED SWISS COMPETITIVENESS DUE TO INNOVATION BY INDUSTRY AND CREATION NEW FINANCING FACILITIES FOR EXPORTERS. FURTHER REDUCTION OF UNCLASSIFIED

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WHOLESALE PRICE INDEX IN JUNE IS ONLY POSITIVE FACTOR. CROWLEY.

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